

Columbia Business School Visiting Fellow Research Paper

Effectiveness and Importance of Leadership in the Changing Period "A secret key to revitalize Japanese firms"

by

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I am grateful to The Mitsubishi Trust and Banking Corporation that has given me the opportunity to research for one year and to Columbia University's Center on Japanese Economy and Business that has taken care of us both publicly and privately.

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The difference between winning and losing will be how the men and women of one company view change as it comes at them. If they see it as a threat, as an ill wind to be resisted by keeping your hand down and digging your feet in-we lose. But if they are provided the educational tools and are encouraged to use them-to the point where they see change as synonymous with opportunity, where they become receptive to it, even demand of it-then every door we must pass through to win big all around the world will swing open to us, new markets, exotic technologies, novel ventures, dramatic productivity growth.

Jack Welch, General Electric Chairman and CEO

1. Background of American Firm Revival: The General Electric Case

1. Introduction

The purpose of this research paper is to analyze the impact of the CEO on business performance and employee working motivation. As I will discuss, leadership by the CEO is the key essence for any firm. Indeed, it is the key fact for the Japanese companies' survival in the future.

Before analyzing American firms, I would like to analyze Japanese firms. Why did Japanese firms stagnate in the 1990's? Undoubtedly, some Japanese firms kept growing in the 1990's. But many successful firms, like some banks and commercial firms, performed quite poorly in the 1990's. What happened to these firms?

In the past, Japanese firms were extremely successful and there are reasons why. According to Taichi Sakaiya, Japan built the bureaucrat-dominated industrial alliance system. This system contributed to the advancement and growth of the Japanese economy until the 1980's. This system functioned well, importing Euro-American techniques and pursuing Euramerican style. Taichi Sakaiya's words, " Socialization of risk that spread the risk to society as a whole has brought concentrated investment to growing sector and has contributed to mass-produced manufacturing industry's rapid growth."

This system became a growth engine for Japanese firms and allowed Japanese economic growth. But, of course, this system had some faults. Namely, it did not have a function of self-reform. Japanese firms reached the summit of modern industrial society, using this system. But the times have already been changing from modern industrial society to a new society. In fact, firms need a new system that will respond to a new society.

2. General Electric

How did excellent American firms regenerate themselves? In which way did they change their system? Now I choose one excellent American firm and analyze its successful secrets.

I focus on General Electric Corporation (GE). This company is not a new PC maker that was founded in the 1990's and is not a dot-com firm either. GE has a long history with 340,000 employees. Their market capitalization is the largest in NYSE. It is a huge firm in the United States, yet, it was not a particularly excellent firm in the early 1980s. Yet, Jack F. Welch, Jr., the CEO, led the company with strong leadership based on mission, value, and vision and made GE one of the most successful companies in the United States. Mr. Welch introduced a new concept named "Team GE".

In the case of GE, what had he done? The following table contains data of his two-decade reform.

Jack Welch's Two-Decade Reform

Stage	Period	Feature	Reform Contents
1 Step	1981-84	Restructuring	Launch on selection and concentration of business Share a sense of concerning and reality with employees A period of Select and Concentration
2 Step	1985-88	Organization Reform	Reduce the number of HQ's staff Cut organizational stratum from 9 to 4 Change old managers A period of Destruction of every wall
3 Step	1989-93	Reengineering	Develop WORK-OUT and BEST PRACTICE A period of Reform "Corporate Culture"
4 Step	1994-	Building New Business Models	Start Product Initiatives (Six Sigma, e-business, Service, Globalization) A period of expand "Learning Organization"

Source: Harvard Business Review, 2001 January

Jack Welch changed the old management style in order to correspond to the new changing environment and social needs. He followed Schumpeter's creative destruction to the old organization, the old business structure, the old corporate culture, old employees and rebuilt them to the new ones. At the same time, he created a new organization that could correspond to the changing environment. This is exactly what Japanese firms need. In the following, I will explain Jack Welch's reform in detail.

3. Management rationalization

He took office as CEO in 1981 in the middle of depression. GE had suffered poor business performance, because Japanese firms were highly competitive. He realized the importance of improving productivity. In order to rebuild competitive power, he worked out two basic strategies.

- Win first place or second place in global market share in every business.
If impossible, the business would restore or sell or shut down.
- Create a quick and flexible organization like a small firm.

He made both hardware and software revolutions based on the above two strategies. It is very important that he made two revolutions at the same time. He selected and concentrated on particular business industries as a part of the hardware revolution. In the middle of this revolution, he realized a large number of organizational hierarchies and HQ's staff had disturbed entrepreneurial talent's action. So he completely cut organizational hierarchy and reduced HQ's staff.

At the same time, he developed the software revolution. He delegated employees' authority and internal resources. Next he created the leadership training courses in order to educate entrepreneurial leaders in Crotonville and to educate new leaders with skills. He introduced the concept of WORK-OUT in the GE. The WORK-OUT is a special meeting where employees discuss various problems with each other. This WORK-OUT encouraged entrepreneurial behavior which allowed employees to create new ideas and work independently.

At this stage, there are three important aims. First is to develop reform plans along the basic strategy. If the basic strategy is simple and clear, employees can understand it and carry out necessary reforms efficiently.

Second is to make employees realize the importance of reforms by delegating authority and giving employees access to information. By so doing, employees learn how to work by themselves. Indeed, Jack Welch spent most of this time making employees change the way they see their business activities. In Japan, many executives say that it is important to make employee realize the necessity of reforms. But in reality, how many executives can afford the time needed to change employees' mind-set? Japanese firms tend to overemphasize the hardware revolution

and pay little attention to the software revolution. If companies were in the middle of growth, employees would have loyalty to firms. And if there was not any sort of revolution, chaos would not occur. But it is difficult to ensure the employee's loyalty by the lifetime employment or the seniority system (or the seniority wages) when firms are in a state of major change. They need to motivate their employees.

The third goal is to raise future entrepreneurial leaders. Jack Welch educated entrepreneurial leaders in order to create an organizational structure that could respond to the changing environment. His ultimate goal was to make every employee act and think like a CEO, to understand and respond to change quickly. He taught leadership to employees at all levels

4. Search for coordination benefit

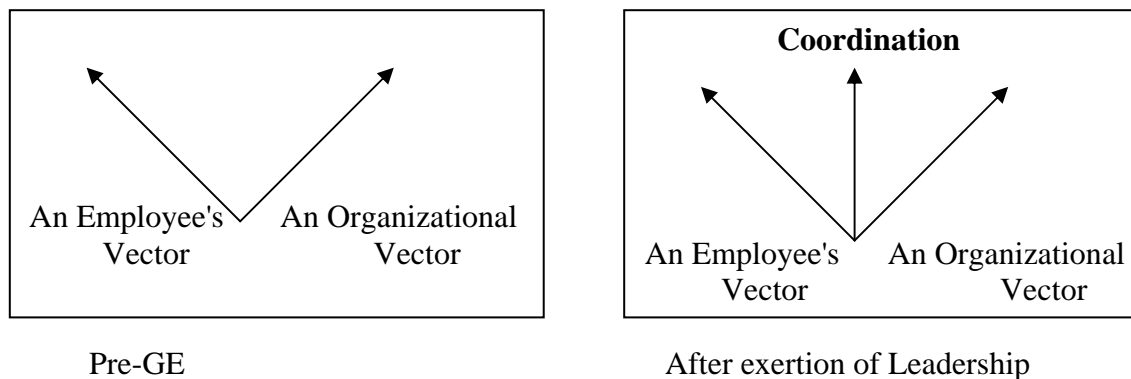
In the next stage, Welch introduced BEST PRACTICE as the hardware revolution. This is the learning process. At first, this was only for top executives. After that, through the leader's effort, it expanded throughout the whole company. Every employee strived for improved quality and management style.

WORK-OUT is important from the viewpoint of the software revolution. In practice, for this software revolution, Jack Welch changed GE's evaluation-rewards system. He introduced a new system that evaluates new ideas.

There are four features in this stage. First, the software revolution accounted for 90 percent of all reforms on this stage. We could judge that the software revolution was a time-consuming job and the CEO developed the revolution himself. Second, the evaluation-rewards system worked closely with value. He expressed clearly what GE's value is at this stage. In fact, the human resource system was the most important system.

The third point is to define value. Most firms have corporate culture. This is a code of conduct on employees. He had to come up with the new value in order to change employees' mind-set. He gave newly defined codes of conduct and led them with the evaluation system. He had destroyed every cumbersome wall and aligned an employee's vector with an organizational vector. This is very important. This is the essence of leadership. Leadership has adjusted the employee's and the organizational vector. He has placed importance on this fasten role. So he had clearly defined what a Leader is. Then, he has taught some new generation of leaders in Crotonville by himself and has allocated them on every level.

The fourth goal is to create the "Learning Organization" as the value. As the result of developing WORK-OUT and BEST PRACTICE, this concept was widespread naturally. It has two meanings. One is employees share the same value through learning. The other is they change their views by learning. Therefore, Welch's organization quickly shifted as a small firm does, and his employees acted like mini-CEOs who could act on their own initiative.



Source: Harvard Business Review 2001 March

At this stage, GE achieved a better business performance based on the strategies that Jack Welch set up in 1981. He introduced new business models as the hardware revolution. A typical

case of the new business models is bundling products and service. Now he leads GE primarily in four initiatives: Six Sigma, e-business, Product Service, and Global.

As the software revolution, he introduces Six Sigma. Six Sigma is a quality improvement process by BEST PRACTICE. He realized that group action acted on corporate culture through introducing WORK-OUT and aimed development from town meeting on each level to a systematic organizational engineering. Now Six Sigma functions as a new GE's organizational competitive strength and continues to expand to boot.

5. True nature of Jack Welch's innovations

When he was a manager, Jack Welch realized that "GE became a huge bureaucracy " and that "big change would be required. " Based on this idea, when he became CEO, he started to reform the company on the basis of his managerial creed " Productivity gain gives competitive strength and profit." He introduced two following points as a means of achieving productivity gain.

Increase efficiency of Funds Increase efficiency of Human Resource

By using funds and human resources effectively, he increased productivity.

The concrete plans that increase efficiency of funds are to restructure organizational hierarchy. In particular, he emphasized the importance to increase efficiency in the area of human resource. He did so because he believed that "to upgrade and to boost human potential is more efficiency than to upgrade equipment and funds."

His idea has an important insight for Japanese firms. Japanese firms must pay attention to human resources, which is the basis of the organization. In GE, because he understood that

"Successful reform is up to the employee's will ultimately", he initiated different kinds of activities that cultivate potentials of human resources.

In fact, the hardware revolution is like a computer which needs the creation of software (in this case, corporate culture) to run on. For hardware to evolve, the software must also evolve with it. This is a very important point.

What if the OS runs on creation of corporate culture as the software? It is the value of CEO. Jack Welch carried out reforms by changing value in GE. The "Learning Organization" became the new value in GE.

Once again, I stress this point: he, as the CEO, defines the value and designs reforms (draws the vision) and implements and institutionalizes the value.

2. Third time radical change

Now we face a large change by the "IT-Revolution". What is the "IT-Revolution"? According to Mr. Naoya Fujiwara, an economic analyst, "The IT-Revolution means the Digital Revolution". In short, it means to have society as a whole digitalized.

What happens when the social system is turned to digitalization? Mr. Fujiwara explains the feature of digitalization as follow.

<p>Be a master of every combination and every products plan There is no regulation Easy to copy The basic structure is black box (people can't understand the structure) Easy to cross the border</p>
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It goes without saying that digitalization has a very strong impact on society, firms and financial institutions. Japanese financial institutions had been shielded by regulation, so their

fields used to be the most conservative. But the Digital Revolution destroyed such trends. At first, the wall of business category was broken. Next, the interprofessional wall was also destroyed through entering from the outside firms like Sony and Ito-Yokado. And they have been hard-pressed to compete with overseas firms on an equal footing.

I have bought some books at *Amazon.com* recently. As you know, Amazon is the internet bookshop. When we buy a book at Amazon, they take note of the subject matter we are interested in, and introduce some related books to us later. And they also will tell us by e-mail when a new related book will be published. If this shop opens 24 hours a day in our own house, such a net bookstore truly challenges conventional bookstores. Digitalization dissolves distance between customer and firm. The Digital Revolution demands firms to reform their way of corresponding to change like this.

What does the Digital Revolution really change? It changes a way of working. I know there are some different opinions. But you can understand this when you observe a Japanese financial institution.

As Professor Drucker, Mr. Taichi Sakaiya and Jack Welch said, the Digital Revolution is a real revolution that changes a way of working and the fundamental shape of organization. For Japan, this revolution will be as important as the Meiji Restoration and the end of World War II. In my seminar Professor Saito's phrased it as, "This revolution is a system revolution that transforms the social system".

American firms have quickly realized the real meaning of this revolution and its consequences. Excellent firms like GE have tried to live with this real revolution as they have changed their management style. This is a very important point. Jack Welch has not created a new organization that can correspond to this change. He thought, "Change is normal". So he

challenged himself to correspond to any change by creating a new organization that could be self-reformed, taking advantage of this revolution. And Jack said that these tasks were a CEO's main responsibility.

“Historically speaking, Japanese are good at corresponding to change and adapting in a new environment. Thus, once the Japanese realize change and have sense of crisis in common, they will be quick to change”, Professor Drucker once said. I agree with him completely.

3. Difficulty of changing corporate culture

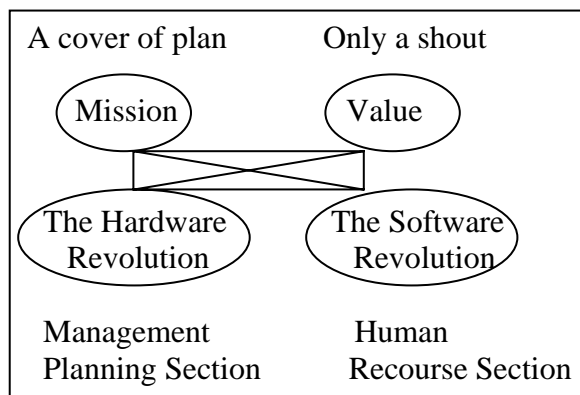
1. Corporate culture is important

There was an article about Fujitsu in Asahi newspaper dated March 19, 2001. It is about reconsideration of the human rewards system, which was introduced eight years ago. (About the system: Every employee decides his own goal every half year. So his bosses evaluate his achievement level based on the five-grade system. The results affect his bonus, wages, and promotion.). Some employees said in this article “...because we have not challenged long-range high targets for fear of failure, it has been hard to create a successful product”, “The simple jobs like aftercare of our goods are neglected, so troubles have increased and customers run away”, and “We have our hands full of achieving our goal, so we have tended to force work on another person when some troubles occur”. Actually, who had incurred failure in this case? The real answer will be made clear in actual research to follow after this. But I do dare to express my opinion. The answer is successive CEOs since the introduction of the system. (See attached Data 1)

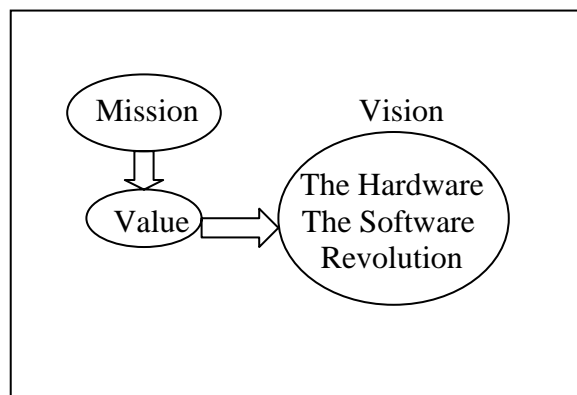
In the article, Fujitsu's president Mr.Akiyama said, “it is hard to have the system infiltrated into Japanese society. I'd like to have established the Japanese performance-oriented

system. We don't go back to the seniority wage system.” When I read this comment, I thought how American journalists arranged the article if it were written in this country. I guess Japanese journalists write the tone like “Still too early to introduce of the Western performance system”. But it is understood completely different in this country. I suppose American journalists write the tone like “The failure of CEO”. In the U.S., motivating employees is the greatest job of the CEO.

Japanese firms have developed the Euramerican hardware revolution like restructuring and introducing the performance-oriented wages system. These are very important management strategies that can produce high efficiency. But as mentioned above, the successful American firms have progressed the hardware revolution on the basis of the CEO's management idea. At the same time, they have developed the software revolution (change of corporate culture and value etc).



Japanese Reform -no relevance-



U.S.' Reform -relevance-

And they know how corporate culture affects employee in reality. They also realize how difficult it is to change corporate culture. So CEOs make sure to change corporate culture if necessary.

Why do they do so? As mentioned before, CEOs in successful firms know that the motivation of every employee affects corporate performance. Therefore, we understand why Fujitsu introduced the performance-oriented wages system.

2. Limitations of growth engine

Each human being is different, with his or her own genetic make-up. This is the same for firms. Firms have their own corporate culture. In Japan, corporate culture is called *shafu*. It is formed over a long period of time.

In Japan, through making use of the growth engine and maintaining the lifetime employment system, they could have continued to develop their firms without big change and their employee could have had loyalty to firm. In fact, the organizational vector and the employee's vector and the society vector were toward the same direction in the past.

But the business environment has been changing already. The growth engine and the lifetime employment system have started collapsing. These vectors are not the same direction. In short, we should get the new vector, motivate employees and correspond to new environment. How have successful American firms taken shape "corporate culture = the organizational vector"? They have the clear concept of "Mission and Vision and Value".

3. Mission, Vision, and Value

Of course, American firms also faced poor performance in the past, as Japanese firms do now. At American business schools, scholars analyze the firm's behavior in these days thoroughly. Based on successful cases, such as GE, Southwest Airline, Compaq, Honeywell, and Adidas, their conclusion is that the key for business success is to have clear Mission, Value and Vision.

Mission

The job of the CEO is to establish the company's mission. In Japanese, mission is *keiei rinen* or *shakun* or *shaze*. At Japanese firms, employees have not considered Mission all that important so far. If anything, they would recognize a company's mission for information while job hunting. In fact, they have understood Mission as a symbolic thing, as opposed to a tangible, attainable goal. But the real role of the Mission would become a central concept to maintaining employee loyalty in the future.

Vision

Vision is the design that demonstrates a company's clear and simple intention to achieve Mission. It looks like an image for the future. For example, Disney's Vision is "to become the world's greatest Entertainment Company". This Vision of Disney is well known. They clearly present the direction by having a clear vision. Thanks to that vision, employees can take this vision, interpret it and understand where they fit in the design of the organization. But it is necessary to establish Value for employees as well.

Value

Value is the principle and sense of achieving Mission and drawing Vision. It is an extremely important concept these days. It is the employee's code of behavior and the firm's ideal situation. As mentioned before, GE has great value. So does Wal-Mart. Wal-Mart's value "everyday low price" is very famous. Why is Value so important? Because it is a concept of influencing employee's motivation. In fact, the value is so powerful that it prescribes employee's way of working. There are only a few cases that firms introduce new Value apparently in Japan. So it is very hard to understand the meaning of Value for Japanese. But Value has been created for a long

time within ourselves. For this reason, it is necessary to understand new Value in this changing situation. There are some codes of behavior, like slogans, in Japan. But they have never accomplished high stage that influences employees. This is reality.

As is discussed above, Mission, Vision and Value are very important tools for establishing corporate culture. To motivate employees, to make firms correspond to change and to meet the employee's vector, CEOs have to define Mission, Vision and Value. That is the nature of CEO's leadership.

4. The Effectiveness of Leadership

1. Southwest Airline case

There was a story about Southwest Airline in The Wall Street Journal dated the 26th of March 2001. The company is a middle class, but it is an excellent company that has won "Top Company of Customer Satisfaction Measurement" and "The best workplace among the Fortune". Mr. Herb Kelleher, the CEO of Southwest, leads the company. He has improved customer and employee satisfaction on the basis of his idea "People first". The article was about his successor. (See attached Data 2)

According to this article, Mr. Kelleher decided to retire due to his illness just before the stock price went down. It went on to say that even if the excellent CEO, Mr. Kelleher, resigns, there are successors (leaders in the new generation) in the company. Therefore, the airline company will have no problems.

There are many interesting comments in the article such as: "Driven by the Southwest spirit, new leaders waiting in the wings at all levels of the organization will emerge." "These

people have been in a leadership lab where they've had an opportunity to study and learn firsthand from him for many years."

We can see some following features from above comments.

**There are leaders in the new generation at every level.
Leaders in the new generation understand the Southwest Spirit (value).
Mr. Kelleher as CEO has taught them by himself.
It is the key to have an excellent leader to run the company.
Leadership is extremely important.**

The two most important points are: 1) "there is the new generation of leaders that are hammered in Southwest's Value by Kelleher on every level" and 2) "they manage the company." Initially, analysts recognized that the CEO's charisma was a driving force behind Southwest Airline so that the stock price had responded. But this was not true. What happened was that the leaders in the new generation managed Southwest Airline well and the company continues to grow.

Mr. Kelleher's management essence is as follows. He raised future leaders in order to achieve sustainable growth. From Mr. Kelleher, the leaders in the next generation learn how to set their destination (goal), how to pilot (manage), how to avert a crisis and crew (employee) training. They can pilot (manage) every class of airplane (job). This is exactly the typical case of exerting and developing leadership.

Noel M. Tichy, Professor of University of Michigan, has given the following five points as common feature of excellent firms that have achieved sustainable growth.

- 1 The clue for achieving sustainable growth is leadership.**
- 2 Firms can achieve sustainable growth because there is the new generation of leaders on every level.**
- 3 Firms can achieve sustainable growth and play active roles to raise leaders in the new generation on each level automatically.**
- 4 CEO must educate leaders in the new generation at any level.**
- 5 The leader's greatest medium of instruction is their story of involving an educational point of view.**

Professor Tichy had taught leadership with Jack Welch in GE's Crotonville. He has researched many successful and unsuccessful cases. Southwest Airline fulfilled the above 4 features. (Except 5. Because I don't have a way of confirming.)

Why do successful companies face crises? Why is it hard to sustain growth? No matter what kind of industry is in business, many firms like Xerox, Lucent, Cisco, and Yahoo have recently diminished in performance. What happened? What have these one-time successful companies fallen short of? Why had not they changed themselves? Why can some companies sustain growth while others cannot in the same situation?

The answer lies inside the organization itself. Their system doesn't have the self-change function, and they couldn't change the very strong corporate culture that created their business success in the past. It is the essence of failure. In fact, the solution to prevent failure is to create organizations that have the self-change function.

How can we create such an organization? How can we build the self-change function into the organization? We have some insight from cases of reforms done by Welch and Kelleher. In order to make the organization correspond to change, we should raise leaders in the new generation and allocate them on every level. This is the main theme of this report.

2. Leadership

In the United States, over 1000 books on leadership are published each year. We can see clearly the subject is of great interest to many people.

Leadership is a science derived from business administration. This has been divided into two fields of thought so far. One is "theory of personal assets" and the other is "theory of

behavior". In theory of personal assets, the human characteristics of some leaders are looked at. The ideal leader's ability and image are also investigated. There are many books in this field published in Japan. These books are written about military commanders and politicians in history. These books tell us what leader should do. On the other, theory of behavior researches leader's behavior. This theory investigates a leader's reactions under certain situations. Both theories may be compared to leader's theory that focuses on leader's style.

Past Theory of Leadership = Style Theory

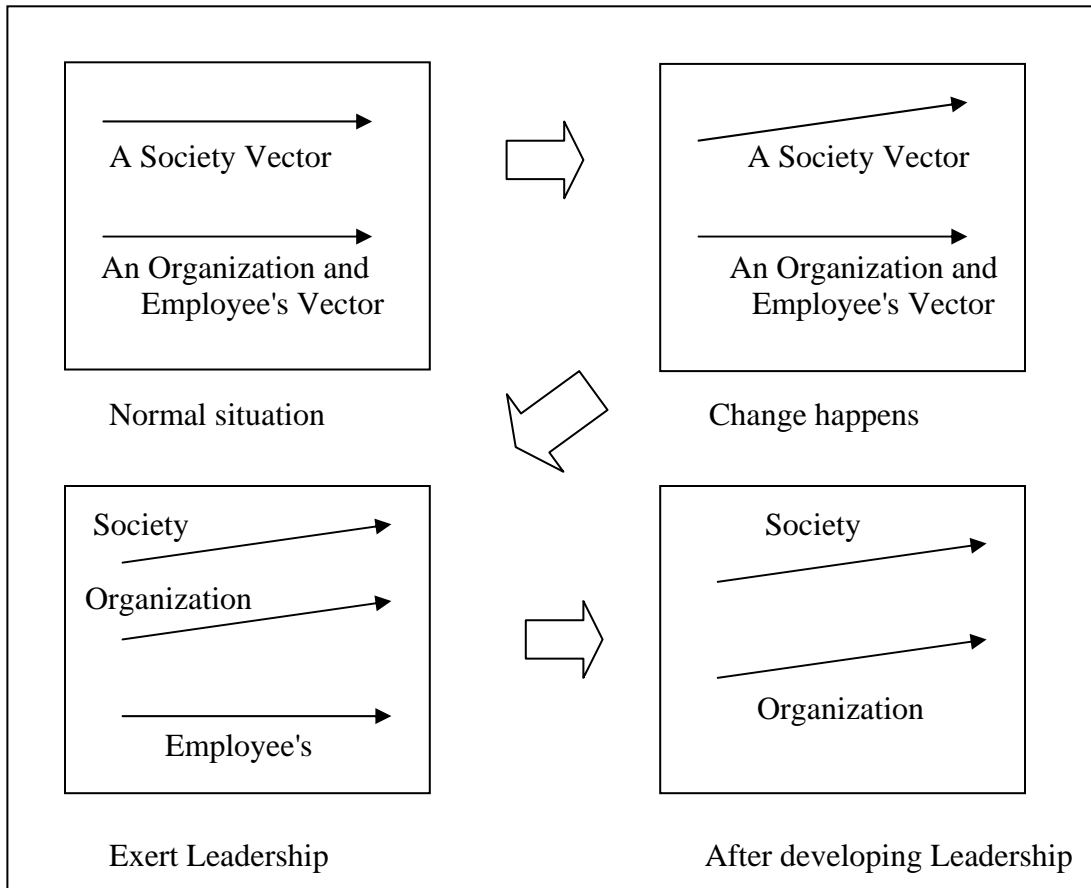
Theory of Personal Assets \Rightarrow Research on required education, ability, and character

Theory of Behavior \Rightarrow Research on behavior = Theory of Contingency

In the 1980s, John P. Kotter, Professor of Harvard University, and Professor Tichy developed the new leadership theory based on the theory of behavior. Of course, there is no universal definition of leadership; indeed, there are so many definitions. My definition of Leadership is as follows:

Leadership is the ability to correspond to change. Exerting Leadership is institutionalizing a new value with vision. Leadership also requires training and mentoring new leaders for the next generation.

After exerting Leadership



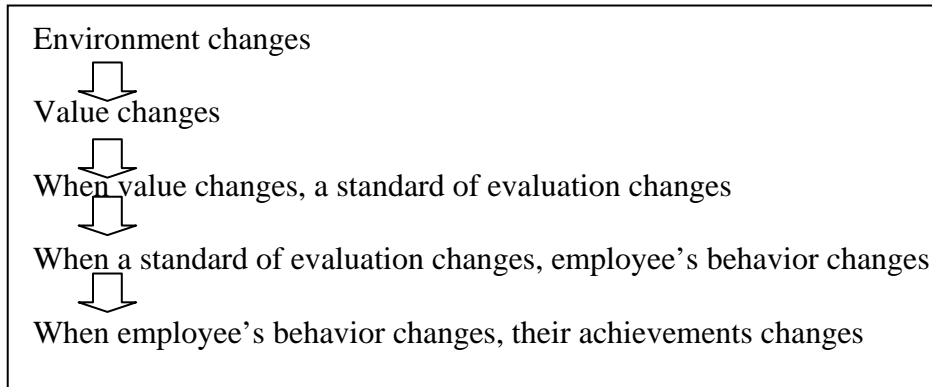
In short, two things are important in exerting leadership. One is to recognize change in the society vector and to phase out the past employee's vector in order to create a new organization vector. The other is to combine the new organization vector line with the past employee's vector. These two behaviors combined will create the necessary flexibility in an organization to allow it to correspond to change.

3. Leadership engine

Leadership is a very important concept for building a new organization. We can see this in Jack Welch's reform. Leadership serves as the reform promotive engine and the self-change promotive

engine. In fact, exerting Leadership exactly equals the self-change function. GE has made an attempt to carry out this company-wide.

GE's self-change system



You can see that GE's system is so simple. It is probably yet unknown whether the system will function well with this big change. But this means every one of GE's employees have a self-change function. There is no other organization like that.

Jack Welch's reform began by exerting leadership by himself. At first, there was naturally no concept of leadership at GE. First, he destroyed GE's vector that had not fitted the society vector and created a new GE vector. Next, he spent a great amount of time directing the new GE's vector line towards the employee's vector.

Once the new generation of leaders was allocated on every level and exerted leadership, the reform engine was set. Without Jack's leadership, the leaders in the new generation on every level have not learned how to develop leadership. They have been the reform promoter and in effect have ability to exercise leadership. Once again, exerting leadership is the self-change function.

4. Effectiveness of Leadership

I have explained the effectiveness and importance of leadership. But have not Jack Welch's own personality and characteristics played a role in GE's growth?

GE's growth is largely due to the fact that Jack Welch was the CEO. At first he introduced Leadership to GE. He also had realized change and had designed the plan. So however leadership is important, it is true that the CEO's and the founder's personal features are given importance finally. In fact, a firm depends on the CEO's personality.

Indeed, leadership is the source of sustainable growth. I've realized that leadership is strategy for a company's sustaining growth.

Jack Welch retires in 2001. His successor is Mr. Jeffrey R. Immelt. It was difficult for him to choose his successor because there are so many good candidates in GE. Evidently, five GE executives were chosen. Business Week reported, "Head-hunter elected top twenty suitable CEOs for Fortune 500".

I worked at the financing section in the past and had met many executives in business. Most of them also had their successor problem. In their cases, they could not find an appropriate person at all. Why does GE and Southwest Airline have so many able new leaders?

The answer is in these successful companies, the CEO raised leaders in the new generation.

5. CEO leads company

1. Learn from an orchestra conductor

When we were in New York, my wife and I have been to the New York Philharmonic several times. Their performances were marvelous and we had a great time. What impressed me most

was indeed, a conductor. Seeing a conductor at the very center of an orchestra brought a few questions to my mind.

Why does the orchestra need a conductor?
Why does a conductor use a baton?
Why does a conductor turn his back to the audience?

I found the answers after the performance. The conductor was there in order to present the fantastic performance to the audience. The role of conductor is to lead performing musicians by using a baton and make them cooperate. He creates a fabulous melody from collecting all the different sounds.

Professor Drucker said, “The orchestra is an ideal organization in the 21st century”. I understood what Professor Drucker said during the performance. If a musical score replaces value and a baton also replaces vision, a conductor makes them practice value through showing them vision. As a result, they can give a marvelous performance and satisfy the audience. We could believe that the organization of an orchestra had been born over one hundred years ago.

Actually, the most interesting question among them is the last one: “Why does a conductor turn his back to the audience?” and “Why does the audience accept that?” These questions may be so simple. But when we think about Japanese firms today, these questions have some insights. In answer to these questions, the role of a conductor role is to lead performing musicians and to make them cooperate in order to satisfy the audience. In fact, a conductor needs to turn his attention to the performing musicians to achieve this goal.

Nowadays, Japanese firms need someone who can play a role of a conductor. Namely, It is the role of Chief Executive Officer (CEO), who makes customers satisfied by offering excellent business performance.

Most American firms have CEOs, since they realize that presidents are too busy to manage every detail. Therefore, they have a CEO who leads employees as well as a Chief Operating Officer (COO) who bears responsibility for execution of daily work.

As mentioned before, Japan is at a turning point in terms of changing the way of working and also in terms of the role of the customer. In order to correspond to change we should reform the organization and employee's consciousness. And for that reason I also have expressed CEO need to exert and plant Leadership.

2. The role of CEO

Here I would like to discuss the role of the CEO.

- 1. To Make Value and Vision clear**
- 2. To Spread Action of Value**
- 3. To Build a system that will raise leaders in new generation**
- 4. To Delegate Authority and Make Information Available**

1.To Make Value and Vision Clear

The CEO needs to clarify in which direction the organization needs to move. If the direction is not clear to the CEO, the employees also will not know. It is a matter of the highest priority to consider which direction the company would like to go, responding to social demands and changes.

2.To Spread Value Through Action

After setting the direction for the organization, CEOs must make employees understand the future direction by spreading value through action. There are two kinds of actions. One is that "Every system is connected with Value". To put it concretely, it is the human evaluation system. The other is the CEO's spreading action. CEOs should walk around a company and explain Value to

employees directly. Not video, not a booklet, not a rumor, but CEOs must use their own voice to make them understand Value. This is the main work of CEO.

3. To Build a System that Raise Leaders in the New Generation

Without doubt, to raise leaders in new generations is extremely important. It should be a core strategy of “Creation of Organization”. This strategy may determine success or failure.

4. To delegate authority and make information available.

To exert leadership and to coordinate employees with the need of an organization is a difficult task. The CEO must make the employee share the values that the organization would like to promote. It also depends on the employee’s autonomy. In order to coordinate with employees, it is necessary to show them the direction and vision of the organization first and then make them realize the difference between their vector with the organization vector. It is “coaching”. After that, they can decide whether to join the two vectors or quit.

In this process, it is important to delegate authority and give access to information. Employees can recognize their and their firm’s axis of coordinates through information. As a result they have authority and responsibility; they have joined two vectors on their work.

There are many things to do besides the above mentioned points. But from 1 to 4 are the necessary conditions of exerting Leadership. Tomorrow’s Japan depends on prompt exertion of Leadership.

3. Exhortation The MTFG MANAGEMENT SCHOOL

In this section, I propose a concrete plan to Mitsubishi Tokyo Financial Group, Inc (MTFG). Namely, the proposal is to establish the MTFG management school. The purpose of establishment is to train young leaders in the new generation. It is the ultimate objective to create an organization that can change by itself and to keep sustainable growth. The school should teach various theories that the new generation of leaders need to know about leadership. They are theories of management, investment, marketing and negotiation. The school would cooperate with academic facilities such as universities, and may invite external experts on this field as lecturers. It is highly effective to allocate excellent executives and employees as trainers.

The important task for CEOs is to teach leadership to potential leaders in the new generation. In the words of Professor Tichy, “the leader's greatest medium of instruction is their story of involving an educational point of view”. Jack Welch has picked up on concrete outstanding problems, so he has discussed the problems seriously through he has asked a question like “What do you do if you are CEO?” He has explained two meaning of teaching by himself. These are to raise leaders and to get some insights to solve real problems. In fact, he has practiced the GE value the “Learning Organization”.

The school is not only to raise new leaders but also to encourage employees to work hard. It becomes a special status to be selected as a student at the school. And the school contributes to create and institutionalize MTFG value.

MTFG merged on April 1st 2001. It is an appropriate time to exert leadership now. The school is the starting point of change. It raises new leaders and promotes change as the promotional engines of the reform. It will also become the starting point of change through

changing the related systems. It is based on MTFG's plans for the twenty years. And the starting point has begun at The MTFG management school.

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